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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- 70113; File No. SR-NASDAQ-2013-096)

August 5, 2013

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify NASDAQ's Rule Governing Modification of Orders in the Event of an Issuer Corporate Action Related to a Dividend, Payment or Distribution

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 ("Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on July 22, 2013, The NASDAQ Stock Market LLC ("NASDAQ" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

NASDAQ proposes to modify NASDAQ's rule governing modification of orders in the event of an issuer corporate action related to a dividend, payment or distribution. NASDAQ proposes to implement the proposed rule change on a date that is on, or shortly after, the expiration of the pre-operative delay provided for in Rule 19b-4(f)(6)(iii).<sup>4</sup> The text of the proposed rule change is available on the Exchange's website at <http://nasdaq.cchwallstreet.com>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> 17 CFR 242.19b-4(f)(6)(iii).

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NASDAQ included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

NASDAQ Rule 4761 addresses the treatment of quotes/orders in securities that are the subject of issuer corporate actions related to a dividend, payment or distribution. The rule applies to any trading interest that is carried on the Nasdaq Market Center book overnight.<sup>5</sup> Prior to a recent proposed rule change,<sup>6</sup> the rule contemplated a range of possible adjustments that, depending on the nature of the corporate action, might result in the cancellation of the order or an adjustment to its price and/or size to reflect the expected impact of the corporate action, effective on the ex-date of the corporate action. NASDAQ amended the rule, however, to provide that in the event of any corporate action related to a dividend, payment or distribution, NASDAQ will cancel open quotes/orders on the ex-date of the action. The cancellation occurs immediately prior to the opening of trading at 4 a.m. on the ex-date of the corporate action, and the member

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<sup>5</sup> NASDAQ notes that the use of such good-till-cancelled trading interest is not prevalent, and that the majority of quotes/orders expire by their terms at the end of regular market hours.

<sup>6</sup> Securities Exchange Act Release No. 69454 (April 25, 2013), 78 FR 25506 (May 1, 2013) (SR-NASDAQ-2013-068).

receives a cancellation notice, so that it can, if it desired, reenter the order at the commencement of trading on the ex-date.

NASDAQ is now proposing to implement limited, optional functionality to allow open orders to be adjusted, rather than cancelled. The change is responsive to member input indicating that such functionality may assist with order management with respect to cash dividends and forward splits, the most common type of corporate action.<sup>7</sup> Under the proposal, a member may designate that all orders with a time-in-force of good-till-cancelled that are entered through one or more order entry ports specified by the member will be processed in the manner specified below.<sup>8</sup>

(1) Cash Dividend. If an issuer is paying a cash dividend, the price of an order to buy will be reduced by the amount of the sum of all dividends payable, rounded up to the nearest whole cent; provided, however, that there will be no adjustment if the sum of all dividends is less than \$0.01. For example, if the sum of all dividends is \$0.381, the price of the order will be reduced by \$0.39. An order to sell will be retained but will receive no price adjustment.

(2) Forward Stock Split. If an issuer is implementing a forward stock split (i.e., a stock split in which shares outstanding are exchanged for a larger number of shares), the order will be cancelled if its size is less than one round lot. If the order's size is greater than one round lot, (i) the size of the order will be multiplied by the ratio of post-split shares to pre-split shares, with the result rounded downward to the nearest whole share, and (ii) the price of the order will be multiplied by the ratio of pre-split shares to post-split shares, with the result rounded down to the

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<sup>7</sup> For other corporate actions, open orders will be cancelled, regardless of the port through which they were entered.

<sup>8</sup> The member may opt for this processing on a port-by-port basis, but not an order-by-order basis. Thus, the new provisions providing for order adjustment will apply to all good-till-cancelled orders entered through a port that has been specified by the member for such processing.

nearest whole penny in the case of orders to buy and rounded up to the nearest whole penny in the case of orders to sell. For example, if a member has entered a good-till-cancelled order to buy 375 shares at \$10.95 and the issuer implemented a split under which each share would be exchanged for 2.25 shares, the size of the order would be adjusted to 843 shares ( $375 \times 2.25/1 = 843.75$ , rounded down to 843) and the price of the order would be adjusted to \$4.86 ( $\$10.95 \times 1/2.25 = \$4.8667$ , rounded down to \$4.86). An order to sell at the same price and size would be adjusted to 843 shares with a price of \$4.87.

(3) Combination of Cash Dividend and Forward Stock Split. If an issuer is implementing a cash dividend and a forward stock split on the same date, the adjustments described above will both be applied, in the order described in the notice of the corporate actions received by NASDAQ.<sup>9</sup>

All of the foregoing changes will be affected immediately prior to the opening of the System at 4:00 a.m. on the ex-date of the applicable corporate action. Open orders that are retained will be re-entered by the System (as adjusted above) immediately prior to the opening of the System, such that they will retain time priority over new orders entered at or after 4:00 a.m.<sup>10</sup>

NASDAQ is also amending the language that describes corporate actions to which Rule 4761 applies to clarify and expand the scope of the rule. Currently, the rule refers to “issuer corporate actions related to a dividend, payment or distribution”. NASDAQ proposes to add to the rule language that would make it clear that the term “dividend” encompasses dividends

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<sup>9</sup> For securities listed on NASDAQ, NASDAQ receives notice of corporate actions from the issuer and determines the applicable ex-date. See Rule 11140. For securities listed on other exchanges, NASDAQ receives notice from the listing exchange.

<sup>10</sup> To the extent that multiple good-till-cancelled orders in a particular security are adjusted and re-entered, such orders may not retain the same time priority vis-à-vis one another that they had on the preceding day. Rather, because such orders will be entered simultaneously through multiple order entry ports, their relative priority will be a function of the duration of system processing associated with each individual order.

payable in stock, securities, or both, and that the term distribution has been interpreted to include forward or reverse stock splits.<sup>11</sup> In addition, NASDAQ is adding language to the rule to include symbol changes and changes in the primary listing venue of a stock, which have not previously been covered by Rule 4761, within the scope of corporate actions resulting in the cancellation of good-till-cancelled orders. NASDAQ believes that this change will assist market participants in managing their orders, because the receipt of a cancellation message will alert the member to the need to evaluate whether to reenter the cancelled order with a new symbol or in a different trading venue.<sup>12</sup>

## 2. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>13</sup> in general, and with Section 6(b)(5) of the Act<sup>14</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and

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<sup>11</sup> See Securities Exchange Act Release No. 54613 (October 17, 2006), 71 FR 62325 (October 24, 2006) (SR-NASDAQ-2006-043) (adopting the phrase “dividend, payment or distribution” and including stock splits as an example of corporate actions covered by the rule).

<sup>12</sup> Notably, in some instances, such as a corporate spinoff, the old symbol may be immediately reused for a different security. Therefore, maintaining an order with that symbol on the book could result in the market participant maintaining an order in a stock in which it did not wish to maintain a trading interest. Also, to the extent that a market participant wishes to trade a security in its listing venue, the cancellation of its open order in the event of a change in listing venue will provide it with the opportunity to do so.

<sup>13</sup> 15 U.S.C. 78f. of a change in listing venue will provide it with the opportunity to do so.

<sup>13</sup> 15 U.S.C. 78f

<sup>14</sup> 15 U.S.C. 78f(b)(5).

a national market system, and, in general, to protect investors and the public interest. Specifically, NASDAQ believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing members with additional optional functionality that may assist them with order management with respect to cash dividends and forward splits, the most common type of corporate actions. The change will also facilitate transactions in securities and perfect the mechanism of a free and open market by assisting market participants in managing their orders in the event of symbol changes and changes in listing venue, by cancelling open orders and thereby alerting members to the need to evaluate whether to reenter the cancelled order.

B. Self-Regulatory Organization's Statement on Burden on Competition

NASDAQ does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, by offering market participants additional options with regard to management of open orders, the change has the potential to enhance NASDAQ's competitiveness with respect to other trading venues, thereby promoting greater competition. Moreover, the change does not burden competition in that it does not restrict the ability of members to enter and update trading interest in NASDAQ.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time

as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>15</sup> and Rule 19b-4(f)(6) thereunder.<sup>16</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2013-096 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2013-096. This file number should be included on the subject line if e-mail is used. To help the Commission process and review

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<sup>15</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>16</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer



to File Number SR-NASDAQ-2013-096 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>17</sup> 17 CFR 200.30-3(a)(12).